

Lakes Oil NL

ABN 62 004 247 214

Interim Report - 31 December 2016

Lakes Oil NL
Contents
31 December 2016

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**Lakes Oil NL
Corporate directory
31 December 2016**

Directors	Chris Tonkin (Non-Executive Chairman) Barney Berold (Non-Executive Director) Nicholas Mather (Non-Executive Director) Ian Plimer (Non-Executive Director) William Stubbs (Non-Executive Director) Kyle Wightman (Non-Executive Director) Karl Schlobohm (Alternate Director)
Chief Executive Officer	Roland Sleeman
Company secretary	Melanie Leydin
Registered office	Level 14 500 Collins Street Melbourne Victoria 3000
Telephone	(03) 9629 1566
Facsimile	(03) 9629 1624
Share registry	Computershare Investor Services Pty. Ltd. Yarra Falls 452 Johnston Street Abbotsford Victoria 3067
Telephone	1300 850 505
Auditor	Pitcher Partners Level 19 15 William Street Melbourne Victoria 3000
Solicitors	Baker & McKenzie Level 19 CBW 181 William Street Melbourne Victoria 3000
Bankers	Westpac Banking Corporation 360 Collins Street Melbourne Victoria 3000
Stock exchange listing	Lakes Oil NL shares are listed on the Australian Securities Exchange (ASX code: LKO)
Website	www.lakesoil.com.au

**Lakes Oil NL
Directors' report
31 December 2016**

The directors present their report, together with the consolidated interim financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Lakes Oil NL (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of Lakes Oil NL during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Chris Tonkin (Chairman)
Barney Berold (Non-executive Director)
Nicholas Mather (Non-executive Director)
Ian Plimer (Non-executive Director)
William Stubbs (Non-executive Director)
Kyle Wightman (Non-executive Director)
Robbert de Weijer (Alternate Director) - resigned 23 January 2017
Karl Schlobohm (Alternate Director)- appointed 25 November 2016 and resigned 16 January 2017

Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of:

- Exploration for oil and gas within Australia and the United States
- Completing the acquisition of NavGas Pty Ltd

Financial Results

The loss for the consolidated entity after providing for income tax amounted to \$5,840,096 (31 December 2015: \$711,403).

The operating loss for the period included an impairment loss of Exploration and Evaluation assets in the amount of \$3,980,582 (2015: nil). Employment benefit costs amounted to \$339,915 (2015: \$617,592). The impairment loss relates to the company's US and Victorian assets and the impairments have been recognised to reflect the fair value of these assets as independently assessed during the period. During the period the company has continued to reduce employment and overhead costs.

Financial Position

The net assets of the consolidated entity decreased by \$4,853,184 to \$1,968,922 as at 31 December 2016 (30 June 2016: \$6,822,106) which is largely due to the impairment of Exploration and evaluation assets as mentioned above. The consolidated entity's working capital deficiency, being current assets less current liabilities was \$229,299 at 31 December 2016 (30 June 2016: \$93,597 surplus). During the period the consolidated entity had a negative cash flow from operating activities of \$1,470,692 (2015: \$678,443).

Corporate developments

Legal proceedings

Further to the Victorian Government's decision regarding the onshore petroleum exploration ban the company launched a Judicial review proceedings in the Supreme Court on 27 October 2016 against the Victorian Minister for Resources. The company also filed a Writ in the Supreme Court of Victoria for damages in the amount of \$2.7 billion arising from the 'derogation from grant' by the Victorian Minister for Resources.

NavGas Pty Ltd acquisition

During the period the company acquired a 4% interest in NavGas Pty Ltd (NavGas) and following the end of the period the company completed the acquisition of the remaining 96%. In view of the Victorian Government's ban on onshore petroleum exploration the newly acquired acreage held by NavGas will be the principal focus of Lakes Oil's exploration effort over coming years.

Movements in capital

During the period the company issued a total of 139,799 converting notes (LKOGB's) at \$10 per note. The notes were issued under a "limited disclosure" section 713 prospectus under the Corporations Act 2001 (Cth) dated 27 June 2016. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 31 May 2018 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 31 May 2018. These notes offer early conversion opportunities to note holders. Notes will also convert in the case of a change in control at 0.11 cents per share. The notes are not redeemable by Lakes Oil NL.

Each note converts into 9,091 shares. However if the 30 Day Average Closing Share Price prior to the maturity date is less than 0.11 cents, the number of shares received on conversion for each note will be increased to a maximum of 10,000 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.10 cents) as set out in the prospectus. This uplift factor increase only applies on conversion at maturity date.

During the period a total of 5,345 (2015: 45,563) LKOGB notes were converted into 26,725,000 fully paid ordinary shares.

A total of 2,070 LKOGB notes were converted into 18,818,370 fully paid ordinary shares.

During the period interest of \$174,661 was paid from funds held by equity trustees for the LKOGB's on issue and \$69,900 for LKOGB's on behalf of the company to holders of converting notes.

The company also issued a total of 30,000,000 fully paid ordinary shares to an employee of the company.

Significant changes in the state of affairs

On 12 July 2016 the consolidated entity sold its investment in Vivid Technology Limited (Formerly Greenerth Energy Limited) (ASX: VIV) for a total of \$758,542 (before costs).

On 30 August 2016, the Victorian Government announced a decision to ban unconventional gas exploration in Victoria, and to extend the ban on conventional gas exploration in Victoria until 30 June 2020.

During the period the consolidated entity issued a total of 139,799 converting notes (LKOGB's) at \$10 per note raising a total of \$1,397,990 (before costs). Each converting note will pay interest amounting to \$0.50 every 6 months until maturity which will occur on 31 May 2018.

On 7 October 2016 the consolidated entity issued a total of 26,725,000 fully paid ordinary shares upon the early conversion of 5,345 LKOGB converting notes.

On 17 October 2016 the consolidated entity issued 30,000,000 fully paid ordinary shares at \$0.001 (0.1 cents) per share to an employee of the company.

On 6 December 2016 the consolidated entity issued a total of 18,818,370 fully paid ordinary shares upon the early conversion of 2,070 LKOGB converting notes.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

**Lakes Oil NL
Directors' report
31 December 2016**

Matters subsequent to the end of the financial half-year

On 18 January 2017 the consolidated entity completed the acquisition of NavGas Pty Ltd following shareholder approval of the company's general meeting held on 16 January 2017. The consolidated entity issued a total of 9.6 billion fully paid ordinary shares to Dark Horse Resources and two individuals.

On 20 January 2017 the consolidated entity issued a total of 103,055,560 fully paid ordinary shares at \$0.001 (0.1 cents) per share partially in settlement of Directors fees as approved at the company's Annual General Meeting held on 16 January 2017, settlement of an employment contract and third party liabilities.

On 10 February 2017 the consolidated entity issued a total of 13,194,442 fully paid ordinary shares. A total of 9,027,778 were issued to the company's CEO pursuant to his remuneration package and 4,166,664 were issued to directors in lieu of fees as approved at the company's Annual General Meeting held on 16 January 2017.

On 14 February 2017 the consolidated entity announced a partially underwritten non-renounceable entitlement issue of 1 fully paid ordinary share for each 4 eligible securities held by eligible security holders to raise up to \$12.6 million.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration


A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Rounding of amounts to the nearest dollar

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the consolidated financial report have been rounded to the nearest dollar.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Chris Tonkin
Chairman

13 March 2017

**LAKES OIL N.L.
ACN 004 247 214
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LAKES OIL N.L.**

In relation to the independent auditor's review for the half-year ended 31 December 2016, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Lakes Oil N.L. and the entities it controlled during the period.



B POWERS
Partner

13 March 2017



PITCHER PARTNERS
Melbourne

Lakes Oil NL
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

		Consolidated	
		31 December	31 December
	Note	2016	2015
		\$	\$
Revenue			
Interest income	4	8,500	18,478
Other income	4	8,500	1,043,893
Fair value gains on financial assets through profit or loss		41,375	-
		<u>58,375</u>	<u>1,062,371</u>
Expenses			
Employee benefits expense		(339,915)	(617,592)
Depreciation expenses		(13,542)	(19,552)
Loss on disposal of assets		(231,002)	-
Impairment loss on exploration and evaluation assets	8	(3,980,582)	-
Accounting and audit expenses		(91,183)	(22,003)
Administrative expenses		(719,069)	(576,026)
Consulting expenses		(166,725)	(168,237)
Finance costs		(202,401)	(28,624)
Marketing and promotion expenses		(26,024)	(95,679)
Rent and occupancy expenses		(128,028)	(108,145)
Fair value losses on financial assets through profit or loss		-	(137,916)
		<u>(5,840,096)</u>	<u>(711,403)</u>
Loss before income tax expense		(5,840,096)	(711,403)
Income tax expense		-	-
		<u>-</u>	<u>-</u>
Loss after income tax expense for the half-year attributable to the owners of Lakes Oil NL		(5,840,096)	(711,403)
Other comprehensive income for the half-year, net of tax		-	-
		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year attributable to the owners of Lakes Oil NL		<u>(5,840,096)</u>	<u>(711,403)</u>
		Cents	Cents
Basic loss per share	15	(0.05)	(0.01)
Diluted loss per share	15	(0.05)	(0.01)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Lakes Oil NL
Statement of financial position
As at 31 December 2016

		Consolidated	
		31 December	
	Note	2016	30 June 2016
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		543,263	761,818
Trade and other receivables		111,673	86,249
Financial assets at fair value through profit or loss	5	-	924,044
Other financial assets	6	400,919	385,302
Other current assets		85,453	38,680
Total current assets		<u>1,141,308</u>	<u>2,196,093</u>
Non-current assets			
Investments	7	400,000	-
Property plant and equipment		1,826,666	1,864,335
Exploration and evaluation	8	1,330,889	5,172,635
Total non-current assets		<u>3,557,555</u>	<u>7,036,970</u>
Total assets		<u>4,698,863</u>	<u>9,233,063</u>
Liabilities			
Current liabilities			
Trade and other payables		921,633	683,601
Converting notes		289,397	216,360
Borrowings	9	-	1,000,000
Provisions		159,577	202,535
Total current liabilities		<u>1,370,607</u>	<u>2,102,496</u>
Non-current liabilities			
Interest payable on convertible notes		51,887	-
Borrowings	10	1,000,000	-
Provisions		307,447	308,461
Total non-current liabilities		<u>1,359,334</u>	<u>308,461</u>
Total liabilities		<u>2,729,941</u>	<u>2,410,957</u>
Net assets		<u>1,968,922</u>	<u>6,822,106</u>
Equity			
Share capital - ordinary shares and converting notes	11	112,002,210	111,015,298
Reserves		40,590	57,420
Accumulated losses		(110,073,878)	(104,250,612)
Total equity		<u>1,968,922</u>	<u>6,822,106</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Lakes Oil NL
Statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Contributed equity \$	Share based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	110,671,928	-	(54,662,007)	56,009,921
Loss after income tax expense for the half-year	-	-	(711,403)	(711,403)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(711,403)	(711,403)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	68,345	-	-	68,345
Capital raising costs	(3,844)	-	-	(3,844)
Balance at 31 December 2015	<u>110,736,429</u>	<u>-</u>	<u>(55,373,410)</u>	<u>55,363,019</u>

Consolidated	Contributed equity \$	Share based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	111,015,298	57,420	(104,250,612)	6,822,106
Loss after income tax expense for the half-year	-	-	(5,840,096)	(5,840,096)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(5,840,096)	(5,840,096)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	1,188,796	-	-	1,188,796
Lapse of options	-	(16,830)	16,830	-
Capital raising costs	(201,884)	-	-	(201,884)
Balance at 31 December 2016	<u>112,002,210</u>	<u>40,590</u>	<u>(110,073,878)</u>	<u>1,968,922</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Lakes Oil NL
Statement of cash flows
For the half-year ended 31 December 2016

	Consolidated	
	31 December	31 December
	2016	2015
	\$	\$
Cash flows from operating activities		
Receipts	8,500	9,377
Payments to suppliers and employees	(1,282,453)	(1,483,916)
Payments for exploration and evaluation costs	(138,836)	(242,316)
Interest received	3,248	16,359
Finance costs	(61,151)	(13,340)
Research and development tax concession refund	-	1,035,393
	<u> </u>	<u> </u>
Net cash used in operating activities	(1,470,692)	(678,443)
Cash flows from investing activities		
Payments for investment in NavGas Pty Ltd	(400,000)	-
Proceeds from disposal of financial assets	758,542	-
Proceeds from trustee investments	2,673	270,000
	<u> </u>	<u> </u>
Net cash from investing activities	361,215	270,000
Cash flows from financing activities		
Proceeds from issue of converting notes	1,375,055	-
Converting note interest paid	(282,249)	(211,119)
Payment of note issue costs	(198,444)	(5,000)
Share issue transaction costs	(3,440)	-
Repayment of borrowings	-	(1,000,000)
	<u> </u>	<u> </u>
Net cash from/(used in) financing activities	890,922	(1,216,119)
Net decrease in cash and cash equivalents	(218,555)	(1,624,562)
Cash and cash equivalents at the beginning of the financial half-year	761,818	2,685,532
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial half-year	<u>543,263</u>	<u>1,060,970</u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 1. General information

The consolidated financial statements cover Lakes Oil NL as a consolidated entity consisting of Lakes Oil NL and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Lakes Oil NL's functional and presentation currency.

Lakes Oil NL is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 14, 500 Collins St
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 13 March 2017.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

None of these Accounting Standards and Interpretations had a material effect.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations is not expected to have any significant impact on the financial performance or position of the consolidated entity.

Compliance with IFRS

Compliance with AASB 134, as appropriate for for-profit entities, ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

Rounding of amounts to the nearest dollar

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the consolidated financial report have been rounded to the nearest dollar.

Note 2. Significant accounting policies (continued)

Going concern

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the 6 months ended 31 December 2016 of \$5,840,096 (2015: \$711,403) and at reporting date has net assets of \$1,968,922 (30 June 2016: \$6,822,106) including \$1,330,889 (30 June 2016: \$5,172,635) of capitalised exploration and evaluation costs.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

On 14 February 2017 the consolidated entity announced a partially underwritten non-renounceable rights issue of up to 6,300,605,519 fully paid ordinary shares at an issue price of \$0.002 (0.2 cents) per share. Each new share will be issued with one bonus unlisted performance right that will automatically, and at no cost, convert into 1.25 fully paid Shares in the Company should the Company's 60-day volume weighted average share price exceed 0.8 cents per share at any time before their expiry date. The expiry date of the performance rights is 1 January 2022. The rights issue has been partially underwritten in the amount of \$1.5 million.

In the event that the rights issue only raises the underwritten amount of \$1.5 million the company will seek to address its cash requirements through the following methods:

- Place the shortfall from the rights issue.
- Renegotiate the mortgage finance facility beyond its current due date.
- Sale of property to repay the mortgage facility.
- Exit the lease on company's registered office.
- Continue to reduce corporate overhead costs.
- Continue to pursue opportunities to negotiate pre-paid gas supply contracts, however at the date of this report no agreements have been signed.
- Continue to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements have been signed.

In the event that the rights issue is closed and only the underwritten amount of \$1.5 million is raised, the directors are confident in the consolidated entity's ability to continue as a going concern through the methods noted above. While there are currently no formal agreements in place regarding the above proposals, the consolidated entity is in advanced discussions with a number of parties and is prepared to execute the above measures in the event that only the underwritten amount of \$1.5 million is raised.

This financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the consolidated entity be unable to continue to raise sufficient funding. To continue as a going concern it may be necessary to implement all or some of the measures described above to address its cash requirements in the event the rights issue only raises the underwritten amount of \$1.5 million.

If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown on the balance sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly, from those reflected in the balance sheet.

Note 3. Operating segments

The consolidated entity has two reportable segments as described below:

Segment 1: Exploration for hydrocarbon reserves, principally in on-shore regions of Victoria, Australia

Segment 2: Investment in entities engaged in the renewable energy sector.

During the period the consolidated entity sold all shares held in Vivid Technology Limited (Formerly Greenerth Energy (GER)) and therefore as at 31 December 2016 the consolidated entities interest in the renewable energy sector had ceased.

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 3. Operating segments (continued)

Operating segment information

	Segment 1	Segment 2	Total
	\$	\$	\$
Consolidated - 31 December 2016			
Revenue			
Segment revenue	8,500	41,375	49,875
Total segment revenue	<u>8,500</u>	<u>41,375</u>	<u>49,875</u>
<i>Unallocated revenue:</i>			
Interest income			8,500
Total revenue			<u>58,375</u>
Total operating result	<u>(5,619,679)</u>	<u>(206,875)</u>	<u>(5,826,554)</u>
Loss before income tax expense	<u>(5,619,679)</u>	<u>(206,875)</u>	<u>(5,826,554)</u>
Income tax expense			-
Loss after income tax expense			<u>(5,826,554)</u>
Depreciation			(13,542)
Loss after income tax expense			<u>(5,840,096)</u>

	Segment 1	Segment 2	Total
	\$	\$	\$
Consolidated - 31 December 2015			
Revenue			
Segment revenue	1,043,893	-	1,043,893
Total segment revenue	<u>1,043,893</u>	<u>-</u>	<u>1,043,893</u>
<i>Unallocated revenue:</i>			
Interest income			18,478
Total revenue			<u>1,062,371</u>
Total operating result	<u>(553,935)</u>	<u>(137,916)</u>	<u>(691,851)</u>
Loss before income tax expense	<u>(553,935)</u>	<u>(137,916)</u>	<u>(691,851)</u>
Income tax expense			-
Loss after income tax expense			<u>(691,851)</u>
Depreciation			(19,552)
Loss after income tax expense			<u>(711,403)</u>

All segment revenue is derived in Australia.

All assets and liabilities in the statement of financial position relate to Segment 1 with the exception of financial assets at fair value through the profit and loss which relate to Segment 2.

All assets and liabilities on the statement of financial position are based in Australia, with the exception of a Segment 1 Non-Current Asset, being Deferred Exploration and Evaluation Costs for Eagle Prospect, a permit in the USA which has a carrying value of \$Nil following the asset been fully impaired at 31 December 2016. This asset is disclosed in Note 8.

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 4. Revenue

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Revenue from continuing operations		
Interest - Other persons/corporations	8,500	18,478
Other Income	8,500	8,500
Research and development tax concession	-	1,035,393
	<u>17,000</u>	<u>1,062,371</u>
Total	<u><u>17,000</u></u>	<u><u>1,062,371</u></u>

Other income relates to agistment revenue received on the Owens Lane property held by the company.

Note 5. Current assets - financial assets at fair value through profit or loss

	Consolidated	
	31 December 2016	30 June 2016
	\$	\$
Ordinary shares - Vivid Technology Limited (VIV) (Formerly Greenerth Energy Ltd (GER))	-	924,044
	<u>-</u>	<u>924,044</u>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	924,044	1,103,335
Fair value gains/(losses) on financial assets through profit or loss	41,375	(179,291)
Disposal proceeds	(758,542)	-
Loss on sale of assets	(206,877)	-
	<u>-</u>	<u>-</u>
Closing fair value	<u><u>-</u></u>	<u><u>924,044</u></u>

The above shareholding comprises shares in Vivid Technology Limited (VIV) (Formerly Greenerth Energy (GER)).

Assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

The investment held in Vivid Technology Limited (VIV) (Formerly Greenerth Energy (GER)) held by the consolidated entity has been valued at fair value through profit or loss totalling \$Nil (30 June 2016: \$924,044) and was classified as Level 1 items in the fair value hierarchy. These assets meet the definition of "held for trading" and therefore are required to be measured at fair value through profit or loss. There were no transfers between level 1 and level 2 during the year however the investment was sold on 12 July 2016.

The fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements

During the period the consolidated entity sold all shares held in VIV.

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 6. Current assets - Other financial assets

	Consolidated	
	31 December	
	2016	30 June 2016
	\$	\$
Security deposit	-	22,000
Cash held on trust	400,919	363,302
	<u>400,919</u>	<u>385,302</u>

The cash held on trust is held on trust by Equity Trustees Limited for the benefit of the holders of listed unsecured converting notes in respect of future interest payments. These funds are restricted funds.

Note 7. Non-current assets - Investments

	Consolidated	
	31 December	
	2016	30 June 2016
	\$	\$
Investments in NavGas Pty Ltd	400,000	-

On 3 October 2016 the consolidated entity announced that it had purchased a 4% interest in NavGas Pty Ltd (NavGas) at a cost of \$400,000. Subsequent to the end of the period the consolidated entity announced that it had completed the acquisition of the remaining 96% of NavGas through the issue of 9.6 billion fully paid ordinary shares as approved by shareholders on 16 January 2016.

Note 8. Non-current assets - exploration and evaluation

	Consolidated	
	31 December	
	2016	30 June 2016
	\$	\$
Exploration and evaluation	52,668,818	52,529,882
Less: Provision for impairment	(51,337,929)	(47,357,247)
	<u>1,330,889</u>	<u>5,172,635</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Exploration and evaluation \$	Total \$
Balance at 1 July 2016	5,172,635	5,172,635
Expenditure during the year	138,836	138,836
Provision for impairment	(3,980,582)	(3,980,582)
Balance at 31 December 2016	<u>1,330,889</u>	<u>1,330,889</u>

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 8. Non-current assets - exploration and evaluation (continued)

Significant judgment is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. During the period the consolidated entity had an independent experts report completed by SRK Consulting. According to the published report each valuation of the consolidated entity's areas of interest in Victoria and Queensland significantly exceeded the carrying book value at 31 December 2016. Given the Victorian Government's recent decision to ban onshore petroleum activities there is an uncertainty around the probability that the consolidated entity will be able to continue exploration activities in each area of interest.

During the period the consolidated entity impaired all its expenditure that it had capitalised in relation to its Victorian exploration acreage in view of the Victorian Government's 30 August 2016 announcement that all onshore gas exploration is to be banned. The consolidated entity also booked an impairment expense of \$3,882,555 on its Eagle California asset following an independent valuation that was completed by SRK Consulting.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective permit areas.

Note 9. Current liabilities - Borrowings

	Consolidated	
	31 December	
	2016	30 June 2016
	\$	\$
Mortgage	-	<u>1,000,000</u>

On 5 April 2016 Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land it owns. The loan was repayable 12 months from commencement date and Lakes Oil NL is guarantor for the loan.

During the period the company negotiated an extension of the mortgage noted above, the loan is now repayable during January 2018 and therefore is now considered non-current borrowings.

Note 10. Non-current liabilities - Borrowings

	Consolidated	
	31 December	
	2016	30 June 2016
	\$	\$
Mortgage	<u>1,000,000</u>	<u>-</u>

On 5 April 2016 Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land it owns. The loan was repayable 12 months from commencement date and Lakes Oil NL is guarantor for the loan.

During the period the company negotiated an extension of the mortgage noted above, the loan is now repayable during January 2018.

Note 11. Equity - Share capital - ordinary shares and converting notes

	Consolidated			
	31 December	30 June 2016	31 December	30 June 2016
	2016	No.	2016	30 June 2016
	No.	No.	\$	\$
Ordinary shares - fully paid	11,940,783,075	11,865,239,705	108,178,511	108,090,033
Converting notes (LKOGA) - fully paid	343,977	349,322	2,880,054	2,925,265
Converting notes (LKOGB) - fully paid	137,729	-	943,645	-
			<u>112,002,210</u>	<u>111,015,298</u>

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 11. Equity - Share capital - ordinary shares and converting notes (continued)

The converting notes issued during the year ended 30 June 2015 (LKOGA's) were issued under a "limited disclosure" section 713 prospectus under the Corporations Act 2001 (Cth) dated 10 March 2015. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 31 March 2017 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 31 March 2017. These notes offer early conversion opportunities to noteholders. Notes will also convert in the case of a change in control at 0.2 cents per share. The notes are not redeemable by Lakes Oil NL.

Each note converts into 5,000 shares. However if the 30 Day Average Closing Share Price prior to the maturity date is less than 0.2 cents, the number of shares received on conversion for each note will be increased to a maximum of 6,667 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.15 cents) as set out in the prospectus. This uplift factor increase only applies on conversion at maturity date.

There is no additional payment required upon conversion.

The converting notes issued during the half year ended 31 December 2016 (LKOGB's) were issued under a "limited disclosure" section 713 prospectus under the Corporations Act 2001 (Cth) dated 27 June 2016. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 31 May 2018 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 31 May 2018. These notes offer early conversion opportunities to noteholders. Notes will also convert in the case of a change in control at 0.11 cents per share. The notes are not redeemable by Lakes Oil NL.

Each note converts into 9,091 shares. However if the 30 Day Average Closing Share Price prior to the maturity date is less than 0.11 cents, the number of shares received on conversion for each note will be increased to a maximum of 10,000 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.10 cents) as set out in the prospectus. This uplift factor increase only applies on conversion at maturity date.

There is no additional payment required upon conversion.

During the period a total of 5,345 (2015: 45,563) LKOGA notes were converted into 26,725,000 fully paid ordinary shares (31 December 2015: 227,815,000).

A total of 2,070 LKOGB notes were converted into 18,818,370 fully paid ordinary shares.

During the period interest of \$174,661 was paid from funds held by equity trustees for the LKOGA's on issue and \$69,900 for LKOGB's on behalf of the company to holders of converting notes (LKOGA's: 2015: \$211,105).

Movements in ordinary share capital

Details	Date	Shares		\$
Balance	1 July 2016	11,865,239,705		108,090,033
Shares issued on conversion of notes (LKOGA's)	9 October 2016	26,725,000	-	44,760
Issue of shares to an employee of the company	17 October 2016	30,000,000	\$0.001	30,000
Shares issued on conversion of notes (LKOGB's)	6 December 2016	18,818,370	-	17,158
Note issue costs adjustment on conversion		-	-	(3,440)
Balance	31 December 2016	<u>11,940,783,075</u>		<u>108,178,511</u>

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 11. Equity - Share capital - ordinary shares and converting notes (continued)

Movements in converting notes on issue (LKOGA)

Details	Date	Converting notes (LKOGA)	\$
Balance	1 July 2016	349,322	2,925,265
Early conversion of notes	7 October 2016	(5,345)	(44,760)
Note issue costs adjustment on conversion		-	(451)
		<u>343,977</u>	<u>2,880,054</u>
Balance	31 December 2016	<u>343,977</u>	<u>2,880,054</u>

Movements in converting notes on issue (LKOGB)

Details	Date	Converting notes (LKOGB)	\$
Balance	1 July 2016	-	-
Issue of converting notes	16 September 2016	44,299	368,208
Issue of converting notes	3 October 2016	58,000	481,343
Issue of converting notes	29 November 2016	37,500	309,245
Shares issued on conversion of notes	6 December 2016	(2,070)	(17,158)
Capital raising costs/note issue costs adjustment on conversion		-	(197,993)
		<u>137,729</u>	<u>943,645</u>
Balance	31 December 2016	<u>137,729</u>	<u>943,645</u>

Note 12. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 13. Contingent liabilities

There were no contingent liabilities at 31 December 2016 and 30 June 2016.

Note 14. Events after the reporting period

On 18 January 2017 the consolidated entity completed the acquisition of NavGas Pty Ltd following shareholder approval of the company's general meeting held on 16 January 2017. The consolidated entity issued a total of 9.6 billion fully paid ordinary shares to Dark Horse Resources and two individuals.

On 20 January 2017 the consolidated entity issued a total of 103,055,560 fully paid ordinary shares at \$0.001 (0.1 cents) per share partially in settlement of Directors fees as approved at the company's Annual General Meeting held on 16 January 2017, settlement of an employment contract and third party liabilities.

On 10 February 2017 the consolidated entity issued a total of 13,194,442 fully paid ordinary shares. A total of 9,027,778 were issued to the company's CEO pursuant to his remuneration package and 4,166,664 were issued to directors in lieu of fees as approved at the company's Annual General Meeting held on 16 January 2017.

On 14 February 2017 the consolidated entity announced a partially underwritten non-renounceable entitlement issue of 1 fully paid ordinary share for each 4 eligible securities held by eligible security holders to raise up to \$12.6 million.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Lakes Oil NL
Notes to the financial statements
31 December 2016

Note 15. Loss per share

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Loss after income tax attributable to the owners of Lakes Oil NL	<u>(5,840,096)</u>	<u>(711,403)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>11,892,370,598</u>	<u>11,533,402,414</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>11,892,370,598</u>	<u>11,533,402,414</u>
	Cents	Cents
Basic loss per share	(0.05)	(0.01)
Diluted loss per share	(0.05)	(0.01)

During the year the consolidated entity made a loss from continuing operations and therefore the options over ordinary shares on issue are non-dilutive.

Lakes Oil NL
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Chris Tonkin
Chairman

13 March 2017

**LAKES OIL N.L.
ACN 004 247 214
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
LAKES OIL N.L.**

We have reviewed the accompanying half-year financial report of Lakes Oil N.L. ("the Company") and controlled entities ("the consolidated entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the period's end or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lakes Oil N.L., ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**LAKES OIL N.L.
ACN 004 247 214
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
LAKES OIL N.L.**

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lakes Oil N.L. and controlled entities is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter in relation to Going Concern

Without modifying our conclusion expressed above, attention is drawn to the matters set out in Note 2 – Going concern in the financial report.

These conditions, as set forth in Note 2 – Going concern, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.



B POWERS
Partner

13 March 2017



PITCHER PARTNERS
Melbourne